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June 5, 2006

RE: Case No. 2005-00450

Please see enclosed data request from Commission Staff in the above case.

If you need further assistance, please contact my staff at (502) 564-3940.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/jc  
Enclosure

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF SOUTH )  
KENTUCKY RURAL ELECTRIC ) CASE NO. 2005-00450  
COOPERATIVE CORPORATION )

THIRD DATA REQUEST OF COMMISSION STAFF TO  
SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

South Kentucky Rural Electric Cooperative Corporation ("South Kentucky"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 5 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before June 16, 2006. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the response to the Commission Staff's Second Data Request dated May 8, 2006 ("Staff's Second Request"), Item 1. South Kentucky states that it has signed 10 year contracts with electric thermal storage ("ETS") customers.

a. Explain whether each participating ETS customer's contract has a different expiration date, or if the contracts have common expiration dates.

b. Explain whether the ETS contract provides for a stated ETS rate or if the ETS contract rate is 60 percent of the residential rate in effect. Provide a sample copy of an ETS contract used by South Kentucky.

2. Refer to the response to the Staff's Second Request, Item 4. South Kentucky proposes to increase the customer charge for Schedule LP even though Schedule LP currently provides for full revenue requirements. Explain why South Kentucky proposes an increase to the rates of Schedule LP, but does not propose an increase to any other rate class that currently provides for full revenue requirements. The explanation should also include why South Kentucky proposes that the increase is limited to the customer charge rather than applying any portion of the increase to the energy charge.

3. Refer to the response to the Staff's Second Request, Item 10.

a. Concerning the purchase of auto parts, did South Kentucky award contracts or establish contractual arrangements with each of the lowest bidders for the various auto parts listed on the bid tabulation, pages 13 through 19 of 21. If yes, do the contracts or contractual arrangements match the results of the bid solicitation.

b. In Item 10(a), South Kentucky was requested to provide information concerning its purchase of products from businesses owned by members of its Board of Directors. The transaction description for the purchases from Whitley City Carquest does not provide the level of detail requested. For each check number listed, provide the supporting invoice and any other documentation detailing the items purchased. In

addition, cross reference the invoice or other documents to the appropriate item on the bid tabulation shown on pages 13 through 19 of 21. If Whitley City Carquest was not listed on the bid tabulation as the lowest bidder, explain why the auto part was not purchased from the lowest bidder.

c. For each of the following businesses, indicate the percentage of ownership by the member of the Board of Directors and his immediate family. For purposes of this question, immediate family means parents, siblings, spouse, or children of member of the Board of Directors.

- (1) Whitley City Carquest.
- (2) Stephens Properties, Inc.
- (3) Hometown Cellular.
- (4) Dollar Discount.
- (5) Clinton Jewelers.

d. In the response to Item 10(b) South Kentucky states, "In fact, not buying from the source having the best value would be more incorrect than being concerned only with relationships." Explain the basis for this statement.

e. Refer to the response to Item 10(d). Concerning cellular phone services:

(1) How many cellular phone providers were considered by South Kentucky?

(2) Did South Kentucky make the switch to Cellular One during the test year? If yes, identify the prior cellular phone service provider.

(3) Explain why cellular phone products were purchased from Stephens Properties, Inc. instead of Hometown Cellular.

(4) Explain why it was necessary to purchase 112 cell phones during the test year and indicate who at South Kentucky received these cell phones.

(5) Explain why it was considered necessary that South Kentucky purchase a blackberry phone.

f. For the test year, provide copies of the Board of Directors' minutes that relate to any actions taken by the Board concerning the purchase of auto parts or cellular phone services.

g. When purchasing products for its operations, would South Kentucky agree that it should take all reasonable precautions to avoid any appearance of a conflict of interest between South Kentucky and the members of its Board of Directors? Explain the response.

4. Refer to the response to the Staff's Second Request, Item 10, pages 5 through 19 of 21.

a. Prior to March 2005, describe how South Kentucky procured auto parts and related services.

b. How did South Kentucky determine that only four vendors should receive the bid solicitation shown on page 5 of 21?

c. Explain how each of the 15 requirements shown on the instruction sheet, page 6 of 21, were developed and the reasons for the level of detail required of the bidders.

d. A member of South Kentucky's Board of Directors has an ownership interest in one of the respondents to the solicitation for auto parts and related services. Explain in detail that member's involvement in the bid process. This includes, but is not limited to, the development of bid specifications, the development of bid requirements, the selection of potential bidders, the processing and evaluation of bid responses, and the awarding of a contract to the successful bidder.

5. Refer to the response to the Staff's Second Request, Item 12.

a. In Item 12(a), South Kentucky was requested to provide an explanation of the People Fund. The requested explanation was not included in the response. Provide the originally requested information.

b. In Item 12(b), South Kentucky was requested to provide the test-year expense for energy audits and other Demand Side Management ("DSM") programs. While providing the number of program participants, South Kentucky stated it did not separately account for energy audits and other DSM programs in its expense accounts.

(1) Is South Kentucky stating it has no idea of the test-year expense for energy audits and other DSM programs? Explain the response.

(2) Explain why South Kentucky does not track the expense of these programs separately in its accounting system.

(3) Explain how South Kentucky can evaluate the effectiveness of these programs without information on the program expenses.

(4) If South Kentucky does not track these program expenses in its accounting system, explain how it can be adequately reimbursed under the East Kentucky Power Coop. Partner Plus Program.

6. Refer to the response to the Staff's Second Request, Item 14(c). Calculate the adjustment necessary to remove any revenues or expenses associated with South Kentucky's non-utility property. Include all assumptions, workpapers, and other supporting documentation.

7. Refer to the response to the Staff's Second Request, Item 15(c). Provide the date by which South Kentucky expects to have completed and adopted an equity management plan.

8. Refer to the response to the Staff's Second Request, Item 16(a). Describe the circumstances which resulted in South Kentucky needing to replace all underground service and transformers in a subdivision. Include the year of original installation of the service and transformers.

9. Refer to the response to the Staff's Second Request, Item 17(e). In this response, South Kentucky states it "scaled back on its right-of-way, since the margins and cash flows were deteriorating." However, in the response to the Staff's Second Request, Item 11, South Kentucky states that it has not incurred any significant changes in the level of right-of-way expenses. Indicate which statement correctly reflects the test-year right-of-way expense activity.

10. Refer to the response to the Staff's Second Request, Item 18.

a. The response to Item 18(a) indicates the on-call program is strictly voluntary. Explain why this program is voluntary rather than mandatory.

b. Indicate when the weekly rate was increased from \$150 to \$250.

c. Provide any analyses or studies performed by or for South Kentucky that justify the increase in the weekly compensation for the on-call program from \$150 to \$250 per week.

d. During the test year, South Kentucky paid five employees for on-call work. Indicate the number of weeks each employee worked during the test year.

e. Concerning the response to Item 18(f), South Kentucky was requested to explain in detail the reason(s) for the amount of increase in the salaries for the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer over the 3-year period shown in the Application, Exhibit 1, page 15 of 19.1. The response does not adequately explain the reasons for the various dollar increases during the period.

(1) Provide the originally requested information.

(2) Include any analyses or studies performed by or for South Kentucky that support the increases granted to these officers.

(3) Explain how these increases were justified given South Kentucky's financial condition during the periods shown.

11. Refer to the response to the Staff's Second Request, Item 23.

a. Concerning the Board of Directors' Compensation Policy D, provide a comparison of the test-year Policy D with the version of Policy D currently in effect. Explain the reason(s) for any changes between the two policies.

b. Concerning the provision of Internet and telephone service to directors:

(1) Does the amount paid for each director's Internet and telephone service cover the entire monthly cost or a portion of the monthly cost? Explain the response.

(2) Are the directors limited in using the provided Internet and telephone services for South Kentucky business only? Explain the response.

c. Concerning the program content of the National Rural Electric Cooperative Association's ("NRECA") Annual Meetings:

(1) Provide the program schedules and itineraries for the last three NRECA Annual Meetings. Include any other information concerning the content of programs or sessions available at the annual meetings.

(2) Provide documentation for the NRECA Annual Meeting held during the test year that demonstrates the South Kentucky directors actually attended the sessions South Kentucky deems to be director training.

12. Refer to the response to the Staff's Second Request, Item 24. Are the referenced "work shirts" part of a standard employee work uniform or are these shirts used as a means to promote South Kentucky to the general public.

13. Refer to the response to the Staff's Second Request, Item 25.

a. The response includes several references to advertisements promoting the "Touchstone Energy Home." Do these advertisements exclusively promote energy conservation or do they serve the dual role of promoting energy conservation and the Touchstone Energy "branding" of electric service provided by rural electric cooperatives? Explain the response.

b. Refer to page 9 of 17 in the response.

(1) Explain the reference to “Student Subscriptions” and the purpose of those subscriptions.

(2) Provide the total test-year expense for these “Student Subscriptions.

(3) Explain why this expense should be included for rate-making purposes.

14. Refer to the response to the Staff’s Second Request, Item 30(c). Explain why rental meter bases are considered non-utility property.

15. Refer to the response to the Staff’s Second Request, Item 31.

a. Has South Kentucky Services Corporation offered other goods or services during its lifetime? If yes, describe those other goods or services.

b. Refer to Item 31(e). In the response, South Kentucky indicates that the allocation of a portion of the directors’ monthly board fees and expenses to the South Kentucky Services Corporation is based upon “labor each month.” Explain the meaning of the reference “labor each month.”

16. Refer to the response to the Staff’s Second Request, Item 32.

a. As South Kentucky’s revenue requirements are determined using a Times Interest Earned Ratio and net margins, explain why South Kentucky did not propose an adjustment to remove the revenues and expenses associated with the non-utility activities identified in this response.

b. Provide the calculation of an adjustment to South Kentucky’s test-year operations that would remove the revenues and expenses associated with these non-utility activities.

17. Refer to the response to the Attorney General's First Data Request dated May 8, 2006 ("AG's First Request"), Item 10.

a. Concerning Item 10(a), explain how the installation of a cell tower repeater qualifies as economic development.

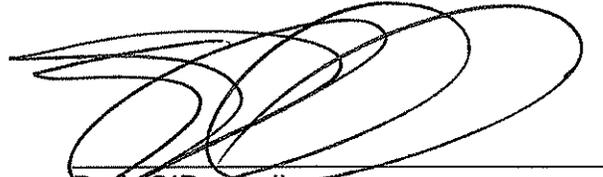
b. Concerning Item 10(b), 10(c), 10(e), 10(g), and 10(i), explain how these meals and donations qualify as economic development.

c. Concerning Item 10(l), provide the attachment referenced on the invoice from Garland and Associates.

18. Refer to the response to the AG's First Request, Item 11. Concerning the monthly expenses of Garland and Associates, explain whether South Kentucky monitors the expenses and if any guidelines concerning reimbursements have been discussed or established.

19. Refer to the response to the AG's First Request, Item 23(b). South Kentucky states that it purchases power under three different tariffs offered by East Kentucky Power Cooperative and that Schedule E-2 is the primary tariff under which South Kentucky purchases its power. Explain whether South Kentucky purchases power for ETS customers under one tariff, or a combination of tariffs.

20. Provide a comparison of the approximate cost to the residential customer of the cost of installing a geothermal heating system to the cost of installing an alternate heat pump or natural gas system. Include in the explanation whether it can be assumed that the prospective geothermal customer considered the lower cost of power under the ETS rate as a factor in the decision to install a geothermal system.



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DATED June 5, 2006

cc: All Parties